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## THE TAXABLE INCOME OF THE UNITED STATES

This study attempts to determine the national income of the United States and the portion thereof subject to excess-profits and income taxes for the years 1917 and 1918. It divides itself into *two* parts: *first*, a study to determine the national income for the year 1917 and to set forth the factors which will govern its increase in 1918; and, *second*, a study of the taxable net income of the people of the United States subject to excess-profits and income taxation.

### I. NATIONAL INCOME FOR 1917

The national income or dividend, as the term is commonly used by economists and statisticians, consists primarily of the sum total of goods and services produced for exchange by the labor of hand or of brain through the utilization of our national resources. To this are usually added some goods which are consumed by the producer or his family, such as the fuel and food produced by the farmer and his laborers for home consumption. It is not customary, however, to add such things as the garden products of the laborer who does not produce them as a commercial pursuit, or the services of the housewife to her family.

The product brought forth by all these industrial activities would be completely represented by an inventory of the goods and services produced within the year. Such an inventory has never been undertaken. Even if it were available it would be defective for our present purpose, because it would be impossible to make a summation of the various products and set them forth as a total which could be compared with the needs of the government for carrying on the war. No practical summation thereof can be made except in money terms, and the national income is here stated in money units rather than in units of physical product.

All the goods thus produced are normally sold, and the prices which they bring become the gross income of the entrepreneurs who undertook their production. A part of this price must be paid

to others who have furnished land, labor, capital, or other material which was used in bringing forth the goods. What remains of the price of the product after paying these factors is the net income or profit of the owner of the enterprise. The amounts paid to the landowner, the capitalist, the laborer, or the producer of raw material used in manufacture, constitute in turn their income from the productive operation in question. The sum total of our national product is thus distributed as money income to those who furnish labor, land and other natural resources, capital, or materials, to be used by the business men who conduct and assume the final risk of productive operations.

It is possible, therefore, to arrive at the national income in either of two ways. The first is to add together the value of all the products brought forth within the year in excess of the amount thereof that is needed to maintain intact our existing stock of wealth. The second method is to add the incomes of all individuals and the undistributed income of corporations and thus arrive at a summary of income; this summary of individual incomes should correspond exactly to the total national product. The choice between these methods must be governed by the available statistical data. We have chosen the first and have sought to determine the net value that has been added to the output of the nation by farmers, their families and laborers; by manufacturing plants and workers; by those engaged in operating our transportation facilities; by the extraction of minerals; by our public utilities; by those who are engaged in merchandising, at wholesale and at retail; and by the professions of all classes. In arriving at the product of each of these groups the statistics of the various government bureaus and departments have been employed. Sometimes these statistics give the gross output only. Since the materials used by the industry in question are the products of other industries, it is necessary to ascertain and deduct the value of the materials used to avoid double counting.

The estimates of national income which have been used in discussing matters of war finance have varied so widely, and the one here presented is so much larger than some of those commonly given, that it is worth while comparing it in detail with the more

important published figures of national income. Four estimates of national income made recently have attracted wide attention. The one most widely quoted was made by Professor W. I. King, then of the University of Wisconsin, in his book entitled *The Wealth and Income of the People of the United States*, which appeared in 1915. He placed the national income for 1910 at \$30,500,000,000.

TABLE I

## TOTAL NATIONAL PRODUCT FOR 1917, BY INDUSTRIES

## Extractive, manufacturing, and public utilities:

Farmers and farm laborers, including the members of their families.....	\$14,500,000,000
Manufacturers and manufacturing la- borers.....	25,800,000,000
Mine operators and miners.....	3,675,000,000
Steam railroads and their employees...	3,040,000,000
Public utilities and their employees....	2,750,000,000

Subtotal.....	\$49,765,000,000
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## Mercantile and professional activities:

Wholesale merchandisers.....	\$ 2,250,000,000
Professional services.....	2,500,000,000
Retail food dealers.....	2,000,000,000
Services rendered by others, including government employees.....	9,000,000,000

Subtotal.....	\$15,750,000,000
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Total national income.....	\$65,515,000,000
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The Hon. A. C. Miller, of the Federal Reserve Board, believes "there is warrant for the opinion that the industrial and business income of the people of the United States for the year 1917 may come close to fifty billions of dollars." The details of this estimate are presented in a paper entitled "War Finance and Inflation," which appeared in the *Annals of the American Academy of Political and Social Science* for January, 1918. Both of these estimates have been made by computing the product of the various industries in the same manner that is here employed.

Professor King also distributed the total national income thus arrived at into family groups. Starting with this distribution, the

Bankers Trust Company of New York City estimated the national income of the people of the United States for 1916 at \$50,000,000,000, and for the year ending June 30, 1919, at \$60,000,000,000. The detailed figures appear in their pamphlets *What Is My Share?* published in March, 1918, and *Twenty-Four Billion*, published in September, 1918. These figures did not purport to be an independent computation of national income but were taken as a conservative minimum estimate for the purpose of distributing the burden of financing the war among the various recipients of income. The fourth estimate is that of Professor B. M. Anderson, Jr., of Harvard University, who places the national income for 1917 at \$68,000,000,000 in an article for the *New York Times Annalist*, January, 1918. He arrives at this figure by taking as a point of departure King's estimate of \$30,500,000,000 for 1910 and increasing it by a factor which expresses the increase in the quantity of physical product multiplied by the rise in the general price level as shown by Dun's index number. He takes as his index of increase in production the growth of railway gross revenues, on the assumption that transportation is a function of production as regards both raw materials and finished product. The growth in the volume of transportation is therefore a measure of the growth in production. Professor Anderson finds that the increase in production from 1910-17 was 31 per cent, and that the increase in prices over the same period was 71 per cent. His computation, then, was as follows:  $\$30,500,000,000 \times 1.31 \times 1.71 = \$68,300,000,000$  of national income for 1917.

The estimates of Professor King and Mr. Miller were made by the same method that has been used in this paper. Table II shows in detail the differences between the estimates of King and Miller and those here presented. The estimates of national income produced by the extractive, manufacturing, and public-utility industries are based upon more adequate statistics than are those for commercial and professional service. It is significant that in the estimates shown in the table the striking increase, both of 1917 over 1910 and of the figures presented in this memorandum over those of Mr. Miller, is for the industries where our statistics are most adequate. The rate of increase over King's figures for 1910

is 161.5 per cent in these industries, while for the more speculative portion of the estimate it is only 37 per cent. The increase taken is therefore conservative. The increase shown over Mr. Miller's figures is in the two items of manufacturing and public utilities. He states that the product of manufactures is conjectural, for the reason that it had to be estimated largely from incomplete output and price data. The difference here shown is to be ascribed principally to the more adequate statistics concerning manufactures afforded by the returns by manufacturing corporations to the Commissioner of Internal Revenue. The figure of gross income, being their sales minus the cost of materials used, was compiled by the Department of Internal Revenue in 1916 for the first time.<sup>1</sup> Manufacturing output for 1917 was somewhat larger than for 1916; by applying to the 1916 gross income the increase in the prices of manufactured products we have arrived at a close approximation of the total product of manufactures for the latter year. The latest statistics for steam railroads and public utilities have made possible a closer estimate of the product of these industries than could be derived from the figures available earlier.

TABLE II  
COMPARISON OF ESTIMATES OF NATIONAL INCOME

Industry	W. I. King 1910	A. C. Miller 1916-17	David Friday 1917
Extractive, manufacturing, and public utilities:			
Agriculture.....	\$ 6,842,000,000	\$14,300,000,000	\$14,500,000,000
Manufacturing.....	8,200,000,000	14,800,000,000	25,800,000,000
Mining.....	976,000,000	3,500,000,000	3,675,000,000
Steam railroads and public utilities.....	3,000,000,000	3,500,000,000	5,790,000,000
Subtotal.....	\$19,018,000,000	\$36,100,000,000	\$49,765,000,000
Commercial and professional...	11,511,000,000	13,600,000,000	15,750,000,000
Total.....	\$30,529,000,000	\$49,700,000,000	\$65,515,000,000

The explanation of the increase in our national income is to be found in the increased demand for American goods at high prices brought about by the European war. The motive for production is profits. When prospective profits are large, producers employ

<sup>1</sup> *Statistics of Income for 1916*, pp. 38-41.

their plants and the available labor power of the country to the full. The outbreak of the European war transformed the whole scale of economic values in England and France. Previously these nations had set aside and saved a large portion of their national income and invested it in foreign countries. Before the war such investments in England alone totaled \$17,000,000,000.<sup>1</sup> In 1915 our present Allies became willing and anxious to devote not only their entire current productive capacity but their accumulated savings as well to the purchase of goods and services that would aid them in the prosecution of the war. They were willing to mortgage their future national income by floating government loans in the United States and to sacrifice at bargain prices their holdings of American securities, all to the end of securing immediate purchasing power to be expended in the attainment of military victory. The United States was the one country whose industrial condition enabled it to be of signal service to the Allies. As a consequence these new economic valuations, born of this new end to be attained, were reflected in an unprecedented demand for American products at highly profitable prices. All these influences, aided and supported by the rapid expansion of bank credit, maintained prices of products at a level which gave every incentive to bring our productive activity to its full capacity.

After the United States entered the war contracts for war work were let at prices which were certain to afford large profits or else on "cost plus" contracts under which the government assumed the responsibility of labor and materials and assured the producer at least a minimum profit. Under these conditions the high tide of productive activity which had been reached was not only maintained but augmented because of the extensive improvements which had been made in the plants of our manufacturing, public-utility, and mining industries. These had been extended at an unprecedented rate during the two years previous to our entry into the war. More than \$25,000,000,000 were invested in plant and working capital of corporations, farms, and other business enterprises of the United States during the three years ended December 31, 1917. All these plant extensions were of the most

<sup>1</sup> J. A. Hobson, *Export of Capital*, p. 162.

modern labor-saving type and have added largely to our actual and prospective power of production. Our national money income is the resultant of our output of physical goods and services computed at the prevailing prices. A careful study of the physical product during 1917 as compared with the pre-war period shows that this increase in physical output was at least 25 per cent and possibly as high as  $33\frac{1}{3}$  per cent. The index number of wholesale prices compiled by the Bureau of Labor Statistics, which covers the largest number of commodities and is the most scientifically constructed of all the index numbers, shows an increase of prices during 1917 over 1913 of 75 per cent. When these two factors of increase are taken into consideration the increase in national income here shown is believed to be conservative.

## II. NATIONAL TAXABLE INCOME

National taxable income is a legal as well as an economic concept; it includes only that part of the national income which comes within the scope of the tax laws. All the smaller personal incomes are excluded, as are incomes derived from states and municipalities, either as salaries or interest on bonds. Interest on certain bonds of the federal government and income received in kind, such as the rental value of the house occupied by its owner and the food, fuel, house rent, and other services which the farmer enjoys from his farm, are also excluded at present.

The aggregate net income shown in the personal returns filed for the calendar year ended December 31, 1916, by persons and corporations was \$15,000,000,000; the aggregate shown by persons and corporations for the year ended December 31, 1917, will be \$23,000,000,000. The amounts returned by persons and corporations respectively are shown in Table III. Not all of the income reported pays taxes. It is estimated that of the amount reported by individuals, \$4,700,000,000 was subject to the normal income tax. In addition, \$2,700,000,000 of income which did not pay normal taxes paid surtaxes, making a total of \$7,400,000,000 of personal income which paid normal taxes or surtaxes in 1917 as against \$4,266,000,000 in 1916. All of the income reported by corporations which is not taken as excess-profits tax is subject to



the normal corporation-income tax. Thus \$17,900,000,000 of the national income for 1917 had taxes levied upon it. Table IV shows the comparative figures of income-paying taxes in 1916 and 1917. The taxes assessed against these incomes in 1916 were:

Corporate income.....	\$171,805,150
Individual income, normal.....	51,440,558
Individual surtax.....	121,946,136
Total.....	\$345,191,844

TABLE III

	1916	1917
Corporations.....	\$ 8,766,000,000	\$10,500,000,000
Individuals.....	6,298,000,000	12,500,000,000
Total.....	\$15,064,000,000	\$23,000,000,000
Less duplication on account of individual returns consisting of dividends.....	2,136,000,000	3,000,000,000
Net income represented by returns...	\$12,928,000,000	\$20,000,000,000

TABLE IV

	1916	1917
Corporate income.....	\$ 8,766,000,000	\$10,500,000,000
Personal income subject to normal tax....	2,572,027,890	4,700,000,000
Personal income subject to surtax only....	1,694,058,067	2,700,000,000
Total.....	\$13,032,085,957	\$17,900,000,000

For 1917 we estimate that the taxes assessed will be as follows:

Income tax:

Personal

Normal.....	\$ 130,000,000
Surtax.....	600,000,000

Corporation.....	528,504,000
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Excess-profits tax:

Individuals and partnership.....	100,000,000
Corporations.....	1,691,600,000

Total.....	\$3,050,104,000
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There are two reasons for this increase in taxable net income, one legal and the other economic. The legal reason is the change

in the income-tax law which lowered the exemption from \$4,000 for married persons and \$3,000 for single persons to \$2,000 and \$1,000 respectively. This brought in 2,400,000 returns approximating \$5,000,000,000 of income which would not have been reported under the previous exemptions. The economic reason for the increase is the larger national income.

The manner in which the personal and corporate incomes subject to taxation have grown since the pre-war period is shown by Table V. The figures for the year 1917 are of necessity based upon estimates. The best data available indicate that there are 2,400,000 returns of incomes less than \$3,000 and 700,000 returns of incomes over \$3,000. It has been assumed that the incomes of less than \$3,000 will average slightly over \$2,000 each. In view of the fact that these returns show on the average \$700 of taxable income, this estimate of average income seems conservative.

TABLE V  
(000 omitted)

Fiscal Year	Personal Income Reported	Personal Income Subject to Normal Tax	Additional Income Subject to Surtax	Total Personal Income Paying Taxes	Corporation Income Subject to Income and Excess-Profits Tax	Total Income Subject to Tax
1913.....	\$3,900,000	\$1,527,364	\$ 817,000	\$2,344,364	\$ 4,339,000	\$ 6,683,364
1914.....	4,000,000	1,655,949	735,000	2,390,949	3,710,000	6,100,949
1915.....	4,600,000	2,399,578	1,425,000	3,824,578	5,184,000	9,008,578
1916.....	6,298,000	2,572,028	1,694,058	4,266,086	8,766,000	13,032,086
1917.....	12,500,000	4,700,000	2,700,000	7,400,000	10,500,000	17,900,000

The number of returns over \$3,000 shows an increase of 60 per cent over 1916. There is no way at the present time of telling how these returns are distributed, but it is certain that the increase is for the most part in the lower incomes. We have estimated that the total income reported by all people making returns of \$3,000 or over will be \$7,500,000,000, an increase of approximately 20 per cent over 1916. This, added to the \$5,000,000,000 of incomes under \$3,000, gives the total of approximately \$12,500,000,000 shown above as the amount of personal income for 1917. The assumption that the increase in the number of returns was confined entirely to the lower income ranges may seem unwarranted

in view of the experience of 1916 and 1915 as compared with 1914, since in both those years the increase in number of returns was much greater in the upper income ranges than in the lower.

Table VI shows the number of returns at each income range and the rate of increase for 1915 and 1916 over 1914. In comparing 1917 with 1916 and 1915 we must remember that these years were years of rising prices in the security market, while 1917 was a year

TABLE VI  
INCOME-TAX STATISTICS\*

Incomes	Total Number of Returns			Percentage of 1916 to 1914	Percentage of 1916 to 1915
	1914	1915	1916		
\$ 3,000-\$ 4,000 . . . .	82,754	69,045	85,122	102.8	123.3
4,000- 5,000 . . . .	66,525	58,949	72,027	108.3	122.2
5,000- 10,000 . . . .	127,448	120,402	150,551	118.1	125.0
10,000- 15,000 . . . .	34,141	34,102	45,305	132.7	132.9
15,000- 20,000 . . . .	15,790	16,475	22,621	143.3	137.3
20,000- 25,000 . . . .	8,672	9,707	12,956	149.4	132.4
25,000- 30,000 . . . .	5,483	6,196	8,055	146.9	130.0
30,000- 40,000 . . . .	6,008	7,005	10,068	167.5	143.7
40,000- 50,000 . . . .	3,185	4,100	5,611	176.1	136.8
50,000- 100,000 . . . .	5,161	6,847	10,452	202.3	152.6
100,000- 150,000 . . . .	1,180	1,793	2,900	243.9	161.9
150,000- 200,000 . . . .	406	724	1,284	316.2	177.3
200,000- 250,000 . . . .	233	386	726	311.1	188.1
250,000- 300,000 . . . .	130	216	427	328.5	197.7
300,000- 400,000 . . . .	147	254	469	312.2	184.6
400,000- 500,000 . . . .	69	122	245	355.1	200.8
500,000-1,000,000 . . . .	114	209	376	329.8	179.9
1,000,000 and over . . . .	60	120	206	343.3	171.7
Total . . . . .	357,515	336,652	429,401	120.1	127.5

\*From the *Annual Report of the Commissioner of Internal Revenue*.

of falling prices. It is not possible to determine what proportion of the increase in the personal-income returns for 1916 was due to stock-market profits, but it was probably large. In 1917 there was a widespread taking of losses for income-tax purposes. This was stimulated by the possibility of investing in tax-exempt federal bonds. An actual decline in the number of large incomes would probably have resulted except for the increase in corporate dividends. This increase should maintain the number of returns in the upper ranges because of the large proportion of those incomes

which consists of dividends. For incomes of \$20,000 and over dividends constitute from 33.6 to 59.4 per cent of the total before making general deductions. Dividend payments in 1917 for the companies reported by the *Journal of Commerce* were \$1,062,138,000 as against \$855,787,000 in 1916, an increase of 24 per cent. A group of 301 industrial corporations shows in their published reports dividend payments as follows:

1915.....	\$385,589,000
1916.....	658,726,000
1917.....	734,402,000

Table VII gives the sources of income for each income range, and shows how important the effect of this increase in dividends must have been in maintaining the income in the higher ranges in

TABLE VII  
SOURCES OF INCOME BY CLASSES

Income Class	Percentage of Income from Personal Services, Salaries, etc., and Professions	Percentage of Rents, Fiduciary, Royalties, and Income from Foreign Securities	Percentage of Interest on Notes, Bonds, Mortgages, etc.	Percentage of Business, Trade, and Commerce Partnership Gains and Profits	Percentage of Dividends	Total Gross Income
\$ 3,000-\$ 4,000.....	47.8	15.5	7.6	24.0	5.1	100.0
4,000- 5,000.....	46.0	14.5	7.4	29.4	2.8	100.0
5,000-10,000.....	36.4	13.6	8.0	32.6	9.5	100.0
10,000-20,000.....	25.8	13.8	8.4	32.5	19.5	100.0
20,000-40,000.....	18.8	12.3	8.6	31.8	28.5	100.0
40,000-60,000.....	13.8	12.4	8.6	31.6	33.6	100.0
60,000-80,000.....	12.8	10.6	8.2	33.3	35.1	100.0
80,000-100,000.....	10.7	12.4	7.8	31.4	37.7	100.0
100,000-150,000.....	11.1	11.1	8.0	33.0	36.8	100.0
150,000-200,000.....	7.6	11.9	7.8	33.2	39.5	100.0
200,000-250,000.....	7.9	10.9	7.9	33.7	39.6	100.0
250,000-300,000.....	6.6	12.4	7.2	30.5	43.3	100.0
300,000-500,000.....	5.5	12.1	7.0	30.3	39.1	100.0
500,000-1,000,000.....	4.4	13.2	7.5	30.6	44.3	100.0
1,000,000-1,500,000.....	4.1	10.3	8.5	33.0	44.1	100.0
2,000,000 and over.....	0.5	5.1	6.9	28.1	59.4	100.0
Total.....	22.1	12.6	8.0	31.7	25.6	100.0

1917. The corporate income for 1917 was estimated by increasing the net income of the various classes of corporations for 1916 by percentages derived from a sampling of the returns. Table VIII shows the increases in each class of corporations for 1917 over 1916,

as well as the growth of corporate net income since the pre-war period. In view of the discussion of the war-profits tax it is of interest to calculate the amount by which the income of the different classes of corporations exceeds their average pre-war income for the years 1911 to 1913 plus an allowance of 10 per cent on their

TABLE VIII

CORPORATE NET INCOME REPORTED TO THE COMMISSIONER OF INTERNAL REVENUE  
IN THE PRE-WAR PERIOD AND IN 1916 AND 1917\*  
(ooo omitted)

Class	1911	1912	1913	Average Pre-War Income	1916	1917
Financial.....	\$ 457,092	\$ 481,622	\$ 438,747	\$ 459,154	\$ 528,000	\$ 630,000
Public service, in- cluding railroads	806,324	930,388	1,003,186	913,299	1,541,000	1,550,000
Industrial (mining and manufactur- ing).....	1,309,819	1,670,334	2,026,884	1,669,012	5,027,000	6,500,000
Mercantile.....	303,306	423,012	473,202	419,840	465,000	720,000
Miscellaneous.....	277,165	326,795	397,532	333,831	1,205,000	1,100,000
Total.....	\$3,213,706	\$3,832,151	\$4,339,551	\$3,795,136	\$8,766,000	\$10,500,000

\* The classifications in this table are those employed in the reports of the Commissioner of Internal Revenue for the fiscal years ended June 30, 1910 to 1914 inclusive.

added investment. Here we must proceed upon an estimate of the additional capital invested in the various industries. After an exhaustive study of the subject we have arrived at the conclusion that the additional capital invested in all corporations since the pre-war period, either as surplus or new capital issues, was not over \$15,000,000,000. Table IX is a computation of the amount by

TABLE IX

PRE-WAR CORPORATE EARNINGS AND WAR PROFITS FOR 1917  
(ooo omitted)

Class	Average Pre- War Earnings	10 Per Cent on Additional Capital	Total Deduc- tions for Arriving at War Profits	Net Income for 1917	War Profits for 1917
Financial.....	\$ 459,154	\$ 80,000	\$ 539,154	\$ 630,000	\$ 90,846
Public service.....	913,299	200,000	1,113,299	1,550,000	436,701
Industrial.....	1,669,012	1,000,000	2,669,012	6,500,000	3,830,988
Mercantile.....	419,840	90,000	509,840	720,000	210,160
Miscellaneous.....	333,831	130,000	463,831	1,100,000	636,139
Total.....	\$3,795,136	\$1,500,000	\$5,295,136	\$10,500,000	\$5,204,864

which the net income of 1917 exceeds the pre-war profits plus 10 per cent on \$15,000,000,000 additional capital. It is interesting to note that the income remaining in 1917 after the payment of excess-profits taxes is larger than the total net income for 1916 and twice as large as that of 1913, the largest of the pre-war years.

Table X shows the war profits of 1917 for each class of corporations as computed above. It shows also the best estimate of the excess-profits taxes paid by each class which it has been possible to make with the data thus far available. The last column shows the percentage which the excess-profits taxes constituted of the war profits for 1917.

TABLE X  
PERCENTAGE OF EXCESS-PROFITS TAXES TO WAR PROFITS FOR 1917  
(ooo omitted)

Class	Net Income for 1917	War Profits for 1917	Excess-Profits Taxes for 1917	Percentage of Taxes to War Profits
Financial. . . . .	\$ 630,000	\$ 90,846	\$ 50,400	55.5
Public service. . . . .	1,550,000	430,701	62,000	14.2
Industrial. . . . .	6,500,000	3,830,988	1,300,000	33.9
Mercantile. . . . .	620,000	210,160	99,200	47.2
Miscellaneous. . . . .	1,200,000	636,169	180,000	28.3
Total. . . . .	\$10,500,000	\$5,204,864	\$1,691,600	32.5

### III. PROSPECTIVE NATIONAL INCOME AND TAXABLE NET INCOME FOR 1918

In forecasting the national income and the national taxable income for 1918 the fundamental economic factors to be considered are the ratio of the output of actual physical production of 1918 to 1917, and the average price level for the year as compared with that of the previous year. These two factors will determine the size of our national income, out of which the taxable income must be carved by legislation.

The evidence at present available from the reports of the Department of Agriculture as to crop conditions and crop prospects indicates that agricultural production promises to be slightly larger in 1918 than in 1917, especially in the important money-yielding crops of wheat and cotton. A careful examination of the current statistics which are being gathered by the War Industries Board shows that the current productive output in mining and

manufacturing is somewhat increased, although the increase is not a large one. No decrease in national income is therefore to be expected from a decrease of production. The other factor which might decrease our national income, at least as expressed in money terms, would be a fall in the price level brought about by the action of economic forces or by governmental price-fixing. In spite of all attempts at regulation the price level has not been kept stationary. The highest point reached by our prices, as shown by the Bureau of Labor index number of wholesale prices in 1917, was 185 per cent of the average for 1913. Prices reached this point in July; subsequently they declined to 180 per cent in October because of a fall in the price of fuel and lighting, metals and metal products. Since then prices have slowly but steadily risen, until they stood at 203 in August and 207 in September. Table XI shows the movement of prices for the last fifteen months. Bradstreet's index number shows an increase during the first six months of 1918 over the corresponding months of 1917 of 27 per cent. The experience of Canada and England is similar in this matter to our own. Canadian prices for the first six months of 1918 are 21.3 per cent higher than for the corresponding months last year, and English prices for the first six months in 1918 are 13.5 per cent higher than in 1917 and 46.7 per cent higher than in 1916.

TABLE XI

WHOLESALE PRICE INDEX OF BUREAU OF LABOR IN PER-  
CENTAGES OF AVERAGE PRICES FOR 1913

<sup>1917</sup>	
July.....	185
August.....	184
September.....	182
October.....	180
November.....	182
December.....	181
<sup>1918</sup>	
January.....	185
February.....	187
March.....	187
April.....	191
May.....	191
June.....	193
July.....	198
August.....	203
September.....	207

There is no likelihood that any program of price-fixing will be undertaken which will reduce prices below the present level. It is optimistic to assume that they will be held as low as they now are. The average of the Bureau of Labor index number for 1917 was 175; the average for 1918 is almost certain to be 195 at least. These facts concerning the price level, coupled with the prospects of slightly increased production, indicate that our national income this year will be \$72,000,000,000 as against \$65,000,000,000 for 1917.

We cannot generalize directly from an increase in our national income to a like increase in our taxable income. In arriving at the latter we must consider not only the size but also the distribution of this national income, first as between corporations and individuals, and secondly as between individuals showing large incomes and those whose incomes are smaller. Here the most pertinent consideration is the movement of wages as compared with the general movement of the prices of products, especially in mining and manufacturing. If wages rise as rapidly as the prices of products, there will be no increase in corporate profits; if they rise more rapidly, corporate profits may suffer a decrease. In the latter case corporate earnings for 1918 will be decreased, and as a consequence dividends will be somewhat reduced. This would mean that the larger personal incomes will be somewhat reduced, since dividends constitute so large a portion thereof. The money wages of the laborer would be increased, thus increasing the number of income-tax returns in the lower ranges.

If this should occur there is still the question as to whether it would constitute a rise in the real wages of the laborer—in what his wages will buy. If the prices of the things which the laborer consumes rise as rapidly as his wages, then the portion of the total national income that the laborer receives is not increased. If food prices should continue to rise, while price-fixing kept the general price level from rising as rapidly through its check upon other prices, then we might well have a situation in which wages rose only enough to offset this increase in food prices. In this case the net resultant might be a decrease in industrial—notably in corporate—net income, an increase in the net income of farmers, and an increase in the money, but not in the real, income of laborers.



This would not necessarily mean a decrease in the amount of income shown by the income-tax returns. That might even increase somewhat. The amount of taxable income would very probably decrease slightly, and the taxes collected under the present law would certainly be smaller. The decrease in taxes would come in excess-profits taxes, in corporate-income taxes, and in the surtaxes on individual income. To offset this it would be necessary: (1) to change the normal income-tax rate on individuals and corporations; (2) to increase the present excess-profits taxes or (3) to substitute therefor, or add thereto, the tax on war profits; and (4) to devise some means of reaching adequately the war profits of farmers, which are now large and which will be larger in 1918. The most feasible way of doing this would probably be to add to the farmer's income as returned by him a flat amount of, say, \$600 for income received in kind in the form of food, fuel, and house rent, and to require other classes to include their income in kind from the occupancy of homes which they own. The inclusion of this income in kind, coupled with a 12 per cent normal income-tax rate, would offset the loss of revenues from the higher incomes.

While no adequate study has been made of the actual movement of the factors above outlined, there are sufficient facts for two definite generalizations at this time: (1) Dividend payments for 1918 promise to be somewhat less than for 1917. The best current figures on dividend payments are found in the compilation of the *Journal of Commerce* of New York City of the dividend disbursements by large industrial, railroad, and street-railway companies. These have paid \$587,439,397 in the first nine months of 1918 as against \$616,368,530 in 1917. This will affect the personal-income returns in the higher ranges of income. (2) The large corporate profits of 1917 were due in part to the rapidly rising prices of products manufactured from materials and supplies which had been purchased at low prices. The rise in prices will no doubt be less in 1918 than it was in 1917, and this element in the earnings will be correspondingly small. While it is impossible to state accurately what the course of wages, prices, and profits will be during the year 1918, the possibility of decreased profits arising from the factors above assumed seems to be so great that they must be considered as probabilities in planning new revenue legislation.

As regards the corporate industry of the country the estimate of the writer is that financial, public-utility, and railroad corporations will show net incomes materially smaller than in 1917. Miscellaneous corporations and mercantile corporations will not decrease much. Mining and manufacturing may decrease as much as 10 per cent. When all these things are taken into consideration it is estimated that the total corporate income reported for 1918 will be \$9,700,000,000. Even if corporate earnings decrease in 1918 in accordance with this prophecy, there will still be large war profits. The invested capital in 1918 will be \$4,000,000,000 greater than in 1917. Table XII is an estimate of the

TABLE XII

ESTIMATE OF CORPORATE NET INCOME AND WAR PROFITS FOR 1918

Class	Total Deductions for Arriving at War Profits	Estimated Income 1918	Income Subject to War-Profits Tax
Financial. . . . .	\$ 559,154,000	\$ 600,000,000	\$ 40,846,000
Public service. . . . .	1,153,299,000	1,400,000,000	246,701,000
Industrial. . . . .	2,969,012,000	5,900,000,000	2,930,988,000
Mercantile. . . . .	529,840,000	700,000,000	170,160,000
Miscellaneous. . . . .	483,831,000	1,100,000,000	616,169,000
Total. . . . .	\$5,695,136,000	\$9,700,000,000	\$4,004,864,000

corporate net income for 1918 by classes and a computation of the amount by which that net income will exceed the pre-war profits plus 10 per cent on additional capital for each class of industry. If war profits are computed by allowing all corporations a minimum deduction of 10 per cent on their pre-war invested capital, even though their earnings are less than that amount in the pre-war period, the war profits would be further reduced. Table XIII is an estimate of war profits for 1918 after deducting either the earnings for the pre-war period or 10 per cent on pre-war invested capital, whichever is larger.

War profits for 1918 will be 77 per cent of those for 1917, as shown on page 963, if computed by deducting average pre-war earnings plus 10 per cent on additional capital. If a minimum deduction of 10 per cent on all invested capital, pre-war as well as additional, is allowed, war profits will be 63 per cent of those

for 1917. Even when calculated on the latter basis a war-profits tax of 80 per cent for 1918 would yield a revenue 55 per cent greater than the excess-profits tax of 1917. If war profits were calculated on the former basis, an 80 per cent tax would yield twice the revenues received from the excess-profits tax of 1917.

TABLE XIII

Class	Total Deductions for Arriving at War Profits	Estimated Income 1918	Income Subject to War-Profits Tax
Financial.....	\$ 580,000,000	\$ 600,000,000	\$ 20,000,000
Public service.....	1,300,000,000	1,400,000,000	100,000,000
Industrial.....	3,400,000,000	5,900,000,000	2,500,000,000
Mercantile.....	550,000,000	700,000,000	150,000,000
Miscellaneous.....	600,000,000	1,100,000,000	500,000,000
Total.....	\$6,430,000,000	\$9,700,000,000	\$3,270,000,000

Summarizing all these facts and considerations, we arrive at the following comparisons of net income shown by the income-tax returns for 1918 as compared with 1917.

	1917	1918
Corporate incomes.....	\$10,500,000,000	\$ 9,700,000,000
Individual incomes.....	12,500,000,000	14,100,000,000
	<u>\$23,000,000,000</u>	<u>\$23,800,000,000</u>
Less duplication on account of indi- vidual returns consisting of div- idends.....	<u>3,000,000,000</u>	<u>2,800,000,000</u>
Net income represented by returns..	\$20,000,000,000	\$21,000,000,000

Of the income thus returned the following amounts will pay taxes:

	1917	1918
Corporate incomes subject to excess- profits and income taxes.....	\$10,500,000,000	\$ 9,700,000,000
Personal incomes subject to normal taxes.....	4,700,000,000	5,500,000,000
Additional personal incomes subject to surtaxes only.....	<u>2,700,000,000</u>	<u>2,500,000,000</u>
Total.....	\$17,900,000,000	\$17,700,000,000